



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. May 26, 2005. The following members were present:

Jody B. Olson  
Clifford T. Hayes  
Dennis L. Johnson  
Pamela I Ahrens  
J. Kirk Sullivan

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Investment Officer Richelle Sugiyama, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Dennis Fitzpatrick  
Brian McGrath  
Drew Black  
Brent Nye  
Vickie Burnet  
Michael Barcelo  
Doug Bates  
Karl Malott  
Geoffrey Lea  
David McManaman  
James Coleman  
Charlie Brown

Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
Boise Schools  
IPEA  
Idaho Trust National Bank  
Clearwater  
Professional Fire Fighters of ID  
GMAC  
GMAC  
Retired Teachers  
REAI

EXECUTIVE SESSION: Citing Idaho Code §67-2345(b) which allows the Board to discuss personnel issues privately, by motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the Board convened in Executive Session at 8:31. They reconvened in open session at 9 a.m.

Chairman Olson said that during the Executive Session, Trustees had discussed the fact that the salary range for the exempt position of Investment Officer has fallen below comparable rates of Investment Officers in peer positions of surrounding states. By motion duly made by Trustee Hayes and seconded by Trustee Ahrens, the Board unanimously approved an immediate 10% salary increase for incumbent Richelle Sugiyama. In the same motion, the Trustees directed staff to change the salary range to that mirroring classified pay range "R" with a goal of advancing the incumbent's pay to the midpoint of that range. Chairman Olson said Ms. Sugiyama will be on leave from PERSI and will be hired by the Endowment Fund Investment Board while their search for a Manager of Investments is conducted.

#### MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Johnson, the Board unanimously approved the minutes of the April 21, 2005 meeting as submitted.

#### PORTFOLIO

Chief Investment Officer Robert Maynard distributed a background paper to the Trustees for the upcoming manager conference June 8 and June 9. It is a summary of 50-60 hours of conferences with individual managers discussing a wide range of market issues. Discussion at the conference will be based on the assumption that attendees have read the summary. He said the main purpose of the conference, in addition to allowing Trustees to meet our managers, is to hear manager opinions and predictions on how our present portfolio will perform going forward if we maintain the current posture.

Monthly Portfolio Update: Mr. Maynard discussed his report dated May 24, 2005 which showed a fiscal year-to-date return of 9.5%. Highlights from the CIO Comment portion of the report included:

A good earnings season, reasonable inflation numbers, and lower oil prices have recently combined to give the stock markets one of their best short-term runs for months. As a result, the PERSI portfolio is up 2.3% for the month-to-date, and has rebounded to 9.5% for the fiscal year-to-date (although it is still below its best mark for the fiscal year of up 10.3%).

REITS, emerging markets, TIPS and private equity have been the greatest contributors to PERSI's relative performance. For a change, global equity managers have experienced a rough recent three months. For the fiscal year-to-date, the two best performing areas (and managers) are the emerging markets managers (42% and 35% for the fiscal year-to-date) and the Adelante REIT portfolio (28%).

Bernstein Emerging continues to lead all managers in both absolute performance with 41.5% for the fiscal year-to-date, with a 12.7% outperformance of its benchmarks. Bernstein global equity is second in relative outperformance, beating its benchmark by 6.2% for the fiscal year-to-date. Mondrian and Genesis are also showing significant positive performance both with absolute and relative returns. SGAM International equity has the worst relative performance, while Tukman has the poorest absolute performance for the fiscal year-to-date. The major new activity for the portfolio this month is the review of a national apartment real estate venture with Olympic partners, which will be presented to the Investment Sub-Committee the afternoon of May 26.

As of May 24, 2005, the report shows the ending value of the PERSI fund at \$8,495,137,466.

Trustee Johnson asked about the request from the Endowment Fund Investment Board for assistance from PERSI's portfolio team during their search for a Manager of Investments. Deputy Attorney General Goodsell said while there was discussion, no formal request was received from EFIB. Mr. Maynard said that Ms. Sugiyama will take a leave of absence from her PERSI position and be hired directly by EFIB, so PERSI is not involved. Responding to a question from Trustee Ahrens, Mr. Maynard said PERSI has no oversight to the EFIB. Ms. Sugiyama will be managing the EFIB fund as their interim manager. As their employee, Ms. Sugiyama's salary and benefits will be paid by EFIB.

Quarterly Callan Report: Michael O'Leary had previously provided detailed reports on the PERSI Base Plan and the PERSI Choice Plan to the Trustees. He reviewed a summary version discussing interest rate changes, GM and Ford credit issues, hedge fund concerns and said the yield curve is flattening. Discussing the Choice Plan, Mr. O'Leary reported that participants are keeping 78.52% of those investments in the PERSI Total Return Fund. Market value as of March 31, 2005 for the total DC program was \$168,920,605.

Idaho Commercial Mortgage Program Report: Geoffrey Lea and David Manaman of GMAC discussed their performance review findings which had previously been provided to the Board. Each year the PERSI Commercial

Mortgage Program administered by D.B. Fitzpatrick & Co., Inc is reviewed. The review considered program and advisor performance compared to target projections and historical performance on a portfolio level. A sample of loans were examined to assess 2004 actual results versus performance as projected. The review included interviews with a representative sample of borrowers selected by GMAC to solicit comments regarding customer satisfaction and program competitiveness. While borrowers cite the disadvantage of recourse financing, this is considered to be a benefit and not necessarily a weakness of the program. The report concluded that PERSI's CMP's performance equals or exceeds current industry standards. DBF continues to provide a level of quality and quantity of services consistent with the services furnished by advisors or managers of comparable investment activities.

Dennis Fitzpatrick, Brian McGrath and Drew Black of DBF then provided more detail on the program. Lenders in Utah and Washington provide competition in northern and southern Idaho. DBF staff continues to work towards providing more loans in those areas. Chairman Olson asked whether PERSI's Commercial Mortgage Program is still needed. When we started it 17 years ago, few opportunities were available through national banks or lending institutions for Idaho developers. Mr. McGrath said that the personal service and local presence are reasons local builders use our program. Trustee Ahrens said the Board appreciates having the CMP program for investing PERSI funds in Idaho. The program provides a firewall for the Board as requests for investing in Idaho can be referred there and an independent due diligence process used.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Economic growth is slowing around the world with China a major player. Commodity prices are expected to fall as an expected slowing Chinese economy causes a ripple in the stock market over the next six months. Markets remain choppy and speculation on what the Federal Reserve Board will do with interest rates keeps managers worried about an inverted yield curve.

OTHER BUSINESS: Chairman Olson welcomed Amy Castro our new contact at the Legislative Budget Office. Matt Freeman has been assigned to another position.

#### EXECUTIVE DIRECTOR

Juvenile Probation Officer Status: Executive Director Winkle reviewed his May 17, 2005 memorandum regarding the request from the Idaho County Board of Commissioners to classify their Juvenile Probation Officers as police officer members. After discussion, by motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously denied the request and recommended the Commissioners submit legislation to include all county juvenile probation officers in the police officer category.

New Employer: By motion duly made by Trustee Sullivan and seconded by Trustee Hayes, the Board unanimously approved the Gem County Fire Protection District #1 as a new employer with an effective date of June 1, 2005. There are no entry costs for this employer to join PERSI. They have one employee and there are three elected and appointed members.

GASB Reporting Requirements: The Board had previously received copies of an addition to the current Investment Policy. The addition states PERSI's policies on the various risks identified in the GASB 40 reporting rule. Without this addition, additional footnotes would be required in our annual report. By motion duly made by Trustee Hayes and seconded by Trustee Johnson, the Board unanimously approved the addition as submitted.

#### LEGAL:

Indemnity Issue – AG Response: Trustees had previously received copies of the May 23, 2005 response from Division Chief Terry Coffin of the Attorney General's Office regarding Trustee indemnity. Mr. Coffin and Ms. Kit Coffin (no relation) from Risk Management Services were present to answer questions from the Board. Mr. Coffin discussed the defense process saying there is a tort cap of \$500,000 per occurrence under the Idaho Tort Claims Act.

Trustee Johnson expressed concern that the state does not fully cover members of Boards like PERSI who serve for minimum honorariums. Mr. Coffin said the law limits the coverage to \$500,000 and the state provides legal counsel. He agreed, however, that the law made that coverage secondary so it was possible that the state would seek subrogation from other available insurance including a personal homeowners insurance as well as Director and Officer's Insurance (D&O) policies provided by a trustee's employer if the conduct was covered by that policy. Chairman Olson said that in the current University Place suit, he has been asked for access to his umbrella policy. He also said having the ability to independently select one's own counsel is crucial; Trustee Johnson agreed. Ms. Coffin suggested that the Trustees with D & O insurance could approach their insurers and ask them to specify in the policy that it will not cover service on voluntary Boards or the PERSI Board.

Trustees are concerned that the current law does not provide adequate property protection. Trustee Johnson said until the University Place issue was publicized, he thought the state provided adequate coverage. However, now he questioned whether he should be exposing his personal assets for the small honorarium that he receives. Predicting that without a solution to this situation attracting and retaining quality citizens to serve on Boards across the state will become increasingly difficult, Trustee Johnson said we need someone to take the issue to the Governor. He encouraged Mr. Coffin, as an expert from the Attorney General's office, with their knowledge and

expertise, to work with the Governor and the legislature to solve the problem. Mr. Coffin observed that these were policy issues that may be appropriate for reconsideration by the legislature, but queried whether the Attorney General should take the lead in that regard.

Trustee Johnson and Trustee Ahrens were excused at 11:30 a.m. to attend previously scheduled meetings.

#### FISCAL:

Administrative, Portfolio Reports: Financial Officer James Monroe reviewed the administrative budget and portfolio expense reports which had previously been furnished to the Board. The administrative costs through April are at 44.7 basis points which is below the budgeted target of 50.2 basis points.

Quarterly Financial Statements: Senior Accountant Rhonda Yadon had previously provided copies of the unaudited financial statements for the quarter ending March 31, 2005 to the Board. She reviewed various items in the report and indicated there was nothing unusual in the details.

#### EXECUTIVE DIRECTOR (Continued)

Status Update: Mr. Winkle had previously provided a memorandum to the Board summarizing the projects in which PERSI is involved. The interviews of the top two respondents to the Imaging and Technology RFP will be held June 1 & June 2. We expect the Best and Final contract to be signed by the end of June. We may have a representative at the July meeting.

Trustee Hayes asked when we would have the next actuarial data on the sick leave program. He is concerned that school districts are awarding more sick leave days, moving to the higher number of the rate range which will increase the overall costs. Mr. Winkle said the next study is scheduled using July 2006 data.

Mr. Winkle said the Legislative Interim Committee to study benefits has been appointed. Senate members are Dean Cameron, John Andreason, Gerry Sweet, John McGee, Joe Stegner, Bert Marley and Kate Kelly. Representatives serving are Robert Schaefer, Larry Bradford, Rich Willis, Jana Kemp, Ken Roberts, Shirley Ringo and Anne Pasley-Stuart. Senator Cameron and Representative Schaefer are the co-chairs. While the emphasis of this study will be on compensation, PERSI will be providing retirement benefit information to the group.

The worldwide Cost Effectiveness Measurement (CEM) conference was held in Boise May 17-19. PERSI hosted the group for a presentation and tour of our facility. Those attending were impressed with Boise and with PERSI staff, asking how we accomplish so much with so few employees. It was a good conference and it showcased Boise and PERSI well.

Effective July 1, 2005, Falconridge Charter School will be a new PERSI employer with 14 employees. Schools are mandated into our system and no Board action is required. The school is located in Kuna.

FUTURE MEETINGS:

NO REGULAR MEETING WILL BE HELD IN JUNE 2005

**Thursday**, July 21, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, August 23, 2005, 8:30 a.m., Boise - PERSI office

**Friday**, September 23, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office

NO MEETING IS PLANNED FOR NOVEMBER 2005.

Monday, December 5, 2005, 8:30 a.m. Boise – PERSI office

Adjournment: At 11:47 p.m.. there being no further business to come before the Board, by motion duly made by Trustee Sullivan, seconded by Trustee Hayes and unanimously approved by members present, the meeting was adjourned.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director